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GAIN Report

Global Agricultural Information Network

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Pet Food Market Brief

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Report Highlights:

Russia has the world's second largest pet population after the USA with an estimated 60 million pets. According to official statistics, the average annual value of pet food sales is \$1.2 billion, although independent market research agencies estimate annual sales over \$1.5 billion. The share of cat and dog food in overall imports of pet food in Russia is estimated at 74 percent, or \$140 million.

General Information:

Production

Russia has the world's second largest pet population after the USA with an estimated 60 million pets. According to official statistics, the average annual value of pet food sales is \$1.2 billion, although independent market research agencies estimate annual sales over \$1.5 billion. The share of cat and dog food in overall imports of pet food in Russia is estimated at 74 percent, or \$140 million.

According to recent research, there are about 30 million cats and 21 million dogs in Russia. In Moscow alone, there are 5 million dogs and 2.5 million cats. Over 54 percent of Russian families own at least one pet, of which 75 percent own a cat and 35 percent a dog. The number of families that own both a cat and a dog has recently increased.

Pet food is still a relatively young industry in Russia with only a 20 year history. In the Soviet Union, commercially prepared pet products were not available. 100% of consumers used table scraps and leftovers to feed their pets. Therefore, a strong tradition of using home-made food was formed which still exists today, especially in rural areas. Russia's pet food market is still developing and is very concentrated around big cities such as Moscow, St. Petersburg and Yekaterinburg. Experts forecast continued growth and demand in the local pet food market as household incomes increase and old stereotypes are dismantled. According to the International Pet Food Institute (PFI), expansive advertising conducted by multinational companies has led to significant changes in the perception of pet food as a product category. However, lack of information in the regions on the benefits of commercially prepared pet food remains the biggest constraint for the development of the pet food market.

The market for commercial pet food has strong growth potential. The growth is related to a greater demand for specific types of pet food. Currently products include both wet and dry food, economic and premium products, and products that meet very specific needs related to the age (for young, adult and older animals), lifestyle (high-energy or light diets), and health condition (for diets that prevent allergies or address certain diseases) of pets. Experts believe that such market segmentation is at a relatively early stage. The number of consumers that are interested in healthy pet snacks and treats are gradually increasing. Interest is also high in those products that are preservative free and contain healthy ingredients, such as fruit and cereals.

Trade

In 2008, Russian imports of pet food reached a record \$174 million, but, it declined in 2009 and 2010 by 8 and 21 percent respectively, as a result of the economic downturn and additional registration requirements were implemented. Since 2009, average contract prices have gone up by 7 percent. While overall imports of pet food for 2010, both in volume and value, are lower than the 2009 level, pet food imports from the United States during this period increased by 2 percent in volume and value. According to official statistics, imports of pet food in January 2011 alone increased by 29 percent versus January 2010, and reached \$7.5 million. Imports from the U.S. for January 2011 are estimated at \$390,000, \$93,000 more than in January 2010. Trade sources forecast imports of pet food to rebound in

2011 as a result of renewed economy growth, higher household incomes, an increase in the number of pets within Russian families and higher demand for new flavors and premium products.

| Russia Import Statistics | | | | | | | |
|--|------|-----------------|-------------|----------------|-------------|----------------|-------------|
| UDG: Pet Foods (Dog & Cat Food), Group 17 (2007) | | | | | | | |
| Year To Date: January – December | | | | | | | |
| Partner Country | Unit | 2008 | | 2009 | | 2010 | |
| | | USD | Quantity | USD | Quantity | USD | Quantity |
| World | T | 175886876 | 91365 | 162453664 | 79954 | 139334747 | 65066 |
| Netherlands | T | 45983726 | 14029 | 41776118 | 13978 | 36964851 | 12152 |
| France | T | 21680985 | 8959 | 32369389 | 14265 | 23510789 | 9639 |
| Germany | T | 34959322 | 17019 | 23228304 | 10966 | 14535765 | 8417 |
| Thailand | T | 6205243 | 2056 | 13462743 | 5126 | 11071232 | 4226 |
| Italy | T | 4845252 | 1821 | 6179868 | 2800 | 9049069 | 5290 |
| Canada | T | 1378619 | 1706 | 2715373 | 1884 | 7550937 | 3436 |
| Hungary | T | 20387438 | 16539 | 12193445 | 10497 | 7340755 | 5569 |
| Austria | T | 9244419 | 6103 | 12126073 | 8321 | 6789629 | 3388 |
| United States | T | 12773905 | 9893 | 4528439 | 3275 | 4620633 | 3352 |

Source: Federal Customs Service

The Netherlands is the leading supplier of pet food to Russia with 43 percent of all imports followed by France (19 percent), and Germany (14 percent). The current U.S. import share is 3.3 percent. According to trade sources, the share of dry food for cats and dogs in total imports accounts for 57 percent, while 41 percent is accounted for by canned food and 2 percent comes from other types of food.

Distribution Channels, Suppliers

According to the U.S. Pet Food Institute (PFI), today approximately 2,000 brands of pet food are available in retail outlets to consumers. As the market matured over the years, pet food manufacturers and distributors expanded their product ranges to include specialized pet food for various breeds, life stages, activity levels and health conditions of pets. Availability of pet food throughout Russia is high. Multinational companies ensure the presence of their products in all major cities and smaller rural areas. The main channels for pet food purchases are pet shops, supermarkets, food stores and veterinary clinics.

Marketing research conducted by NeoAnalytics on the Russian zoo retail market estimates today's share of the Moscow zoo retail chain in the total structure at 70 percent. Average floor space for a zoo shop varies between 50 and 80 square meters. However, when live animals are available for sale in addition to pet food, the shop floor space can reach 250-300 square meters. About 50 percent of overall zoo retail falls to street zoo retail outlets. The share of retail outlets that occupy a pre-cashier area of 20 square meters is 30 percent, and the share of larger sales premises of more than 100 square meters is 20 percent.

According to recent research conducted by analytical Company "Vlad VneshService", the largest Russian importers of pet food are "North Western Regional Company" and OOO "Nestle" Russia". As a result of the economic downturn, "North Western regional Company" has lost 2 percent of its market share, while Nestle Russia has lost more than 7 percent. As a result, the market share of the third largest

company OOO “Mars” has increased by 3.3 percent.

Table 1: Larger Importers of dry food for cats and dogs in 2009 (latest available)

| Name of the Russian Facility | Region | Share in the Total import volume, in % | | Change |
|--------------------------------------|------------------|--|-------|--------|
| | | 2008 | 2009 | |
| JSC “North Western Regional Company” | Leningrad oblast | 32.98 | 31.00 | - 1.98 |
| OOO “Nestle Russia” | Moscow City | 29.72 | 22.4 | -7.3 |
| OOO Mars | Moscow oblast | 6.48 | 9.79 | 3.3 |
| JSC “Valta Pet Products” | Moscow | 4.68 | 7.91 | 3.2 |
| OOO “Konstruktiv” | Moscow City | 7.29 | 4.59 | -2.7 |
| OOO “Inservis” | Moscow oblast | 1.91 | 3.0 | 1.18 |
| JSC “Ruskan” | Moscow oblast | 1,94 | 2.98 | 1.0 |
| Others | | 15.0 | 18.2 | 3.2 |

Source: Analytical Company VladVneshService, www.vvv-info.ru

<http://vvs-info.ru/articles/otrasl/korma/1394>

Table 2: Major Russian Importers of Canned Food for Cats and Dogs in 2009.

| Name of the Russian Facility | Region | Share in the total import volume, in % | | Change |
|------------------------------|---------------------|--|------|--------|
| | | 2008 | 2009 | |
| OOO Nestle Russia | Moscow City | 44.9 | 43.6 | - 1.3 |
| OOO Mars | Moscow Oblast | 25.8 | 31.6 | -5.8 |
| OOO “Konstruktiv | Moscow City | 5.5 | 3.8 | - 1.7 |
| OOO “Rotonda” | St.Petersburg | 3.9 | 3.9 | -0,08 |
| ZAO “Ruskan” | Moscow oblast | 3.5 | 3.6 | 0.1 |
| OOO “Vertikal” | Moscow City | | 2.5 | |
| OOO Trade House Ivanki | St. Petersburg City | Not available | 2.2 | |
| Others | | 16,43 | 9.02 | -7.41 |

Source: Analytical Company VladVneshService, www.vvv-info.ru

<http://vvs-info.ru/articles/otrasl/korma/1394>

Despite the economic crisis, two new companies have entered the market in 2009: OOO “Vertical” with Bozitta and OOO” Trade House Ivanko” with Schesir.

Among dry pet food producers, the leaders are Hill’s Pet Nutrition Manufacturing (TM Hill’s) whose share in the total imports of pet food is 31 percent, and OOO “Nestle Russia”, with a 23 percent share, with products represented by trademarks: Cat Chow, Dog Chow, ProPlan, Friskies, Darling, Purina One and Purina Vet Diet.

Table 3: Russia: Import Share of Canned Pet Food by Producers in 2009, in %.

Nestle – 40 percent

Mars - 30 percent

Tiernahrung Deurerer GmbH – 6 percent

Siam Tin Food Product SCO., Ltd - 5 percent

Arovit Pet food – 4 percent

Lant Mannen Doggy AB - 3 percent

Saturn Pet Food GmbH – 3 percent

Others – 9 percent.

France is the leader for supplying of canned food for cats and dogs in Russia with an import share estimated at 26 percent, followed by Thailand – 18 percent, Austria - 17 percent, and Hungary - 14 percent.

There are several categories of companies operating on the Russian pet food market. About 90 percent of the Russian market for dog and cat food is represented by large international brands such as Mars and Nestle.

Local distributors of American pet food brands include OOO Nestle Russia, OOO Mars , and ZAO Konstruktiv (Pro Pac).

Dutch company Konstruktiv Co. is also represented on the Russian market with its super premium product “Best Choice.”

Multinational pet food companies operate several pet food facilities in Russia, and the major portion of their products originate within Russia. For example, Mars Inc. has three factories producing over 60,000 tons of pet food per year (one in Stupino near Moscow and two in Novosibirsk, Siberia), Royal Canin has one (Dmitrov, Moscow region, 15,000 tons), Aller Pet Food (private label producer) has two (Tver, 15,000 tons and St. Petersburg, 25,000 tons). Nestlé operates one facility in Kaluga region.

According to a poll conducted by “Comcon” in 2009, 64.1 percent of cat owners purchased dry cat food for their pets and 41.1 percent purchased canned food for their cats. The most popular brands of cat food in Russia, according to Comcon, are:

Whiskas (Mars) – 42.5%

Kitekat (Mars) – 37.9%

Friskies (Nestle) – 18.7%

Darling - 10.3%

Royal Canin – 8.2%

According to the poll conducted for dog owners in 2009, 45.5% of dog owners purchased dry food, while 19.5 percent preferred canned food for their pets. The most popular dog food brands are:

Chappi (Mars) – 23.4%

Pedigree (Mars) – 18.9%

Darling - 8.3%

Royal Canin - 5.9%
Hill's - 4.5
"Trapeza" - 3.3%
"Pro Pac" - 2.5%
Eukanuba - 2.0%
"Oscar" - 1.2%
Other brands - 23.9%

The products of these brands dominate the market and account for 50 percent of the total pet food market in terms of value. Nestlé is the predominant leader on the pet food market; the company increased its market share by 11 percent in 2009, while Mars was able to increase its share by 2 percent. Nestlé's most popular products are Darling, Friskies, Pro Plan, and Gourmet. Among Mars products, Russian pet owners prefer to purchase Whiskas, Kitekat, Pedegree, and Chappi. Last year, experts observed an increased interest in professional pet food, as well as dietary and highly specialized products. Pet owners with higher incomes will prefer to buy higher quality products, mostly guided by health nutrition values and sources of vitamins and minerals.

Market Access

There is significant potential for U.S. suppliers in this market. The U.S. had a substantial and growing share of the market up until 2008; however once Russia changed the certification requirements, U.S. exports began to taper off and were slowly replaced by European products. The current U.S. import share of pet food to Russia is only 3.3 percent.

Russian importers send inquiries to FAS regularly about purchasing U.S. pet food as it is valued for its quality. Currently, there are only six U.S. companies eligible to export to Russia. The list of the approved U.S. facilities eligible to export pet food to Russia is published on the official site of the Russian Veterinary and Phytosanitary Surveillance Service:

<http://www.fsvps.ru/fsvps/importExport/usa/enterprises.html?product=95&productType=2&language=en>

In order to export to Russia, a U.S. supplier should have APHIS inspect his production facility to ensure it meets Russian requirements. U.S. facility management should contact their local Veterinary Services Area Office. Contact information for these offices is available at: http://www.aphis.usda.gov/animal_health/area_offices/.

Currently, there is a negotiated bilateral veterinary certificate for exporting pet food from the U.S. to Russia http://www.aphis.usda.gov/regulations/vs/iregs/products/product_russia_dog_cat_food.shtml

The current certificate will be valid until at least December 31, 2011, when it due to be replaced by a Customs Union certificate. This new certificate will be honored by all of the members, Belarus,

Kazakhstan and the Russian. The three countries are developing unified sanitary, phytosanitary, veterinary requirements and technical regulations. The completion of a unified regulatory system is envisaged by 2012, and until then national systems are valid in these countries. According to Customs Union officials, minor changes are expected in the current veterinary certificate. Below is a courtesy translation of the Customs Union Import Requirements for pet food (Chapter 37) of Customs Union Resolution # 317:

VETERINARY-SANITARY REQUIREMENTS

for import on the customs territory of the Customs union and/or transfer between the Parties of foodstuff for cats and dogs as well as prepared food for cats and dogs after thermal treatment.

To import on the customs territory of the Customs union and/or transfer between the Parties shall be permitted foodstuff for cats and dogs as well as prepared food for cats and dogs after thermal treatment and received on Establishments.

Prepared food for cats and dogs after thermal treatment shall be received from raw materials coming from the administrative territories free from infectious animal and fowl diseases including:

African swine fever, African horse sickness, bovine and small cattle plague, camel pox, classical swine fever, murrain sheep pox and goat pox – within the last 12 months on the administrative territory in accordance with regionalization;

anthrax and anaerobic infections – within the last 3 months in the premises.

Raw materials for foodstuff preparation shall be of slaughtering origin only and shall be subject to after-slaughter veterinary-sanitary tests.

For manufacture of foodstuff shall not be exploited raw materials containing materials of specific risks, gastric and gut contents received during bovine and small cattle slaughter, manufactured in countries with an unfavorable situation in respect of bovine spongiform encephalopathy. Foodstuff shall not contain salmonella, botulinum toxin, enteropathogen and anaerobic micro flora. General bacterial content shall not exceed 500 thousand sq.m. per 1g., that is supported by laboratory tests results.

Raw materials shall be treated at a temperature no less than 133 degree Celsius (271,4 degree Fahrenheit), no more than 20 minutes at a pressure of 3bar (42,824 pounds per square centimeter), or subject to an alternative system of thermal treatment providing required safety regulations in respect of established micro biological standard.

Import of permitted foodstuffs for cats and dogs as well as prepared food for cats and dogs after thermal treatment (at a temperature not lower than 70 degree Celsius, time – not less than 20 minutes) in retail packages shall be done without permission for import issued by the authorized body of the Party on the territory whereof they are imported.

Tariffs and VAT

The value added tax (VAT) on all products in Russia is 18 percent.

Import tariff for HTS 2309 10 dog and cat food is 20 percent but not less than 0.16 Euro per kilogram.

Key Contacts and Further Information

A list of Russian pet food importers and information on pet food fairs or pet shows are available and can be obtained by contacting FAS office in Moscow:

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USDA/FAS

Embassy of the United States of America

Marina.muran@fas.usda.gov

Tel: +7 495 728-5222

Fax: +7 495 728-5133

Below is a list of key Russian importers of pet food from the U.S.

1. Diamond Pet Foods

Alexander Razbitsky

tel: +7 (495) 748 07 90

Email: trade@diamondpet.ru:

2. Eagle Pack

Alexander Chugreyev

Tel:(495) 459-7505

3. Serkos (exclusive distributor of Iams/Eukanuba brands)

Address: Odintsovo City, Mozhayskoye shosse, 8

tel: (499)502-1001

website: <http://www.sercos-company.ru/>

E-mail: office@serkos-company.ru

4. Valta Pet Products (exclusive distributor of Hill's Pet Nutrition)

Robert Imangulov

Address: 115230, Moscow, Varshavskoye shosse, 42

tel: (495)797-34-73, 797-6411, 797-34-72

website: <http://valta.ru/>

E-mail: info@valta.ru helpline@valta.ru

5. Konstruktiv (exclusive distributor of Pro Pac)

Olga Kolodina

Tel (495) 543-9305

Address: 9th Pervomayskaya str., 60

6. Company "Raritet"

tel: (495) 585-55-77

website: www.raritet-ltd.ru

E-mail: secretar@raritet-ltd.ru

7. OOO "Pall and Pet"

tel: (495) 748-07-90

E-mail: trade_j@diamondpet.ru

8. OOO "Zarina"

tel: (495) 921-37-86

website: www.alders.ru

E-mail: info@alders.ru

9. Canidae Rus Co.

Andrey Pavlov or Aleksandr Soldatov

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